

AIM REPORT  
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## THE JOURNAL'S KWITNY NEVER QUILTS

Jonathan Kwitny, one of the Wall Street Journal's star reporters, is familiar to regular readers of the AIM Report. In 1981, we pointed out that a major story he had written about the State Department White Paper on El Salvador was based largely on an analysis written by CIA defector Philip Agee. The Agee critique of the State Department's charge that communist-bloc countries were supplying arms to the guerrillas in El Salvador had been released in Washington by the editors of the *Covert Action Information Bulletin*. This publication is devoted to Agee's project of exposing the identities of CIA agents, and Agee is on its advisory board.

Kwitny obtained a copy of the Agee article on the White Paper from these editors. He studied it and produced a front-page story for the Wall Street Journal which contained 13 criticisms of the White Paper. Every one of them had been made first by Agee. It is no wonder that Agee himself told the Los Angeles Herald-Examiner that Kwitny's story was based on his analysis, even though Kwitny did not acknowledge his debt to Agee.

Frederick Taylor, executive editor of The Journal, was sufficiently stung by the letters of criticism of Agee that he received from AIM members and others that he published a 1400-word defense of Kwitny. He only made matters worse, since he pointed out that another of Kwitny's sources had been John Kelly, editor of the notorious magazine *CounterSpy*. *CounterSpy* is like *Covert Action Information Bulletin*, only worse.

### Kwitny Cuddles Up To Castro

Despite our devastating expose of Kwitny and his reliance on extremist sources, The Wall Street Journal next dispatched him to Cuba to do a story for its readers on how Castro was getting along. The result was a story published on November 16, 1981, which no doubt pleased Castro immensely, but which brought forth stinging rebukes from readers familiar with the facts about Cuba and even from one of the Journal's editorials.

The AIM Report for January-I 1982 covered Kwitny's pro-Castro story in depth, but here is a reminder of how far he was willing to go in his efforts to make Castro's communist catastrophe look good. He wrote: "The average Cuban lives very well these days by Third World standards. He also suffers political repression,

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but accepts it as a price for his economic gains. He strongly supports his government's foreign and domestic policies." Later he argued that Cubans believe "that real restrictions on their lives are less now than under previous right-wing dictatorships." These statements are obviously contradicted by the behavior of the Cuban people. Over one million Cubans have fled their homeland to escape what Kwitny would have us believe is an improvement in their economic condition and their freedom.

### Kwitny Goes Down Under

On August 24, 25, and 26, 1982, Kwitny again appeared on the front page of The Journal with three long articles about a small merchant bank in Australia that had gone bankrupt two years earlier. Bank failures are not such a rarity these days that one in Australia merits front-page treatment in this country. And though Australia is a long way off, it should not take over two years for news of any event of importance to reach New York City.

Why was The Wall Street Journal giving such play to a two-year-old story about the failure of an obscure Australian bank? It was not as if the bank's collapse had threatened the solvency of any American financial institutions. Nugan Hand, Ltd. was a merchant banking enterprise embracing some 40 related corporations scattered around the globe. It has been described as "a two-bit merchant banking firm."

Jonathan Kwitny's interest in Nugan Hand was political, not financial. The Australian Communist Party newspaper, *The Tribune*, had floated charges that the bank was involved with the CIA and had been the channel for CIA funds into Australia. The allegations covered drug dealing, arms running and funding opposition to Prime Minister Gough Whitlam back in 1975. These charges, which remain unsubstantiated allegations to this day, were picked up by the sensationalist press in Australia and they found their way into *CounterSpy* in this country. As Frederick Taylor, executive editor of The Journal admitted in print, *CounterSpy* is a source that Jonathan Kwitny has relied upon in the past. It seems likely that this is what whetted his interest in Nugan Hand.

It is a measure of the strength of Kwitny's position at The Wall Street Journal that he could ride out the serious criticism directed at his articles on the El Salvador White Paper and Cuba and promote another story that has all the earmarks of communist disinformation into a major front-page series in The Journal.

## The Nugan Hand Story

Nugan Hand, Ltd. first made headlines in Australia in January 1980. Its chairman, Frank Nugan, was found shot to death in his car, an apparent suicide. Three months later, the bank declared bankruptcy. Frank Nugan, it appeared, had been embezzling the bank's funds. Shortly after Nugan's death, the vice chairman, an American and former Green Beret, Michael Hand, fled Australia using a false passport. He has not been located since.

The business side of the Nugan Hand story is fairly prosaic. They were taking advantage of a large spread between interest rates in Australia and rates available to savers in the U.S. and Europe. Nugan Hand offered certificates of deposit at attractive interest rates through its offices located mainly in Asia and the Middle East. It could not accept deposits in Australia or the U.S. It put the funds into the Australian money market at a profit. The development of money market funds and low-denomination certificate of deposit in the U.S. and other developed countries made it hard for Nugan Hand to acquire funds cheaply. The whole house of cards collapsed. There is nothing terribly unusual about that.

What struck the Communist Party newspaper in Australia as good anti-American propaganda was the suggestion that the various Nugan Hand corporations included as officers, employees or consultants a handful of retired American officers and a couple of former CIA employees. In addition, William Colby, who had retired as director of the CIA in 1976 and had gone into private law practice, had done some legal work for Nugan Hand in the United States, and his business card was found in Frank Nugan's pocket.

That was enough for the communists to develop the theory that Nugan Hand was really a CIA front. Jonathan Kwitny's friends at CounterSpy ran an article in their Nov. 1980-Jan. 1981 issue titled, "CIA Banking in Australia: Nugan Hand." It said: "The Nugan Hand Bank has been used in covert CIA operations, and the question has been raised whether the bank actually was set up as a CIA proprietary." CounterSpy noted: "The 'Nugan-gate' affair was originally uncovered by the Tribune, the newspaper of the Communist Party of Australia and has since been widely covered by all the Australian media."

But the fact that a retired American admiral, two retired generals, and a retired career CIA officer were on the Nugan Hand payroll in peripheral positions did not convince the American press that this was a hot story until Jonathan Kwitny decided that the Tribune-CounterSpy theory ought to get an airing in The Wall Street Journal. The editors cooperated beautifully, giving him a total of 209 column inches spread over three days.

## Kwitny's Cannonade

As in his discredited attack on the State Department White Paper on El Salvador, Kwitny's tactic in this case was to obscure the fact that his evidence was pitifully weak behind a massive cannonade of words. Only one who has been attacked or the professional critic is likely to go over 209 column inches of newspaper type with any care to see what, if any, substance there is to the mass of verbiage. The average reader, not wishing to take the time to analyze the evidence is likely to come away convinced that the story must have some merit if The Wall Street Journal found it worthy of that much space.

Since the allegation that Nugan Hand was a CIA conduit or front is based mostly on the connection of a few retired officers and CIA employees with the organization, let's see who these people were and what they did for Nugan Hand.

Rear Admiral Earl P. Yates is a former aircraft carrier commander. He was chief of staff for plans and policy of the U.S. Pacific Command until his retirement in July 1974. R. Adm. Yates was named president of Nugan Hand bank (not Nugan Hand, Ltd., the holding company) in 1977. He says that at first he was essentially a goodwill ambassador for the bank. Later, he says he was assigned as a "booster of company morale and director in charge of U.S.-based operations, which never really developed." The main reason for this was that Nugan Hand could not meet the U.S. standards to qualify to receive deposits. Yates says he had no authority to commit Nugan Hand to any action, to hire or fire without the approval of either Mr. Nugan or Mr. Hand, to disburse or transfer funds either within or outside the Nugan Hand group, or to learn the names of confidential clients. Yates operated out of Virginia Beach, Virginia, hardly at the center of Nugan Hand's operations. In other words, Adm. Yates was essentially hired by Nugan Hand for the prestige of his name and his contacts.

Lt. Gen. LeRoy Manor, USAF, was chief of staff of the Pacific Command when he retired in July 1978. He then headed up the military section of the U.S. diplomatic team that negotiated the military base rights treaty with the Government of the Philippines. He joined Nugan Hand in November 1979, only five months before the collapse. He helped run an office in Manila that represented all of Nugan Hand's operations, not just the bank. He knew very little about the bank, according to Adm. Yates, but he was widely known and had excellent contacts in Asia, especially in the Philippines. That's what Nugan wanted.

Brig. Gen. Edwin F. Black, USA (Ret.) is a West Point graduate who, according to the Journal, served in the OSS during World War II. From 1950 on his military career was as a troop commander, not in intelligence. When he retired in 1970, he was chief of staff of the U.S. Army Pacific. Upon his retirement he joined LTV Aerospace Corp. as director of business plans for Southeast Asia with offices in Bangkok. He joined Nugan Hand, having been introduced by Adm. Yates, late in 1977. He was supposed to organize an office in Hawaii that was to become the hub of Nugan Hand's overseas activity, but the funds to accomplish this were

not provided, and in December 1978. Nugan ordered Yates to terminate him. Then without Yates' knowledge he rehired him. He was essentially another prestigious name for Nugan, a man with good contacts, but not a key figure in the management.

That is it as far as Nugan Hand's complement of American flag officers is concerned. Not one of them had any CIA connection, and none of them had any position of real authority in Nugan Hand's central office. Obviously sensing that the intelligence connection was missing. The Journal tried to fake it. In speaking of Gen. Manor, they said that after his retirement from the Air Force he undertook "new duties that the Air Force says are so secret that it can't talk about them." Those duties, as The Journal acknowledges, were the negotiation of the U.S. bases agreement in the Philippines and an investigation of the failed hostage rescue mission in Iran. The Journal tried to make much of Gen. Black's service in the OSS in World War II, saying that the OSS later became the CIA. It said he was the chief administrative aide to Allen Dulles, who later became the head of the CIA, and that he was the boss of Richard Helms, who also became head of the CIA, as if that had some current relevance. It also described LTV Aerospace Corp. as "an important CIA contractor," only they left out "Aerospace," probably because that would alert less knowledgeable readers to the fact that the CIA is hardly LTV's most important customer.

Kwitny tried to drag in another general, Brig. Gen. Erle Cocke of the Georgia National Guard, who permitted Adm. Yates to use the office of his Washington consulting firm as a temporary office. Erle Cocke, who was formerly U.S. Alternate Director on the board of the World Bank, has no ties to the CIA nor to Nugan Hand.

## The CIA Retirees

Kwitny's effort to establish a tie between Nugan Hand and the CIA through the retired military officers is clearly a dud. The effort to establish a tie through former CIA officials also fails. It is true that Walter McDonald, a career CIA officer, took a job with Nugan Hand in July 1979, five months after retiring from the CIA. (The Journal implies that it was "almost immediately"). McDonald was an expert in petroleum, and he met Frank Nugan during a visit to Indonesia in July 1979, having been introduced by a mutual friend, Guy Pauker. Nugan was looking for someone who could advise him on oil deals and he offered McDonald the job. McDonald worked on several investment deals in the few months that he was with the company before it collapsed. He also introduced Michael Hand, the vice chairman of the company, to William Colby, the former CIA director. Hand was threatened with loss of his American passport because he had taken Australian citizenship. McDonald recommended Colby, who was then in private law practice, as an attorney who could help him. It turned out that Colby's firm also had some good tax lawyers, and Nugan Hand was big on tax shelter deals. They were spending substantial sums on tax lawyers, and they decided to give some of that business to the Colby firm. Colby's billings, according to The Journal, totaled \$46,000, none of which was paid. That is how Frank Nugan came to have Bill Colby's card.

Dr. Guy Pauker, a staff member of the Rand Corp., is also placed under suspicion by The Journal of being a CIA plant in Nugan Hand. The Journal says that Pauker "denies reports that he is a career official of CIA." Whose reports, one wonders. Those of Kwitny's friends at CounterSpy? The Journal says Dr. Pauker went to work for Nugan Hand as a consultant after having been introduced by Adm. Yates. Yates says he introduced Pauker to Nugan in June 1979, and Nugan offered him a job. Pauker, he says, never accepted the offer.

Finally, The Journal says that Robert Jansen, a former CIA station chief in Bangkok, worked for Nugan Hand in Bangkok in 1978. Adm. Yates says Jansen was offered a job, but he turned it down for personal reasons. He says that except for a tour Jansen made to look over the firm's offices in the Pacific area, he had no other contact with Nugan Hand.

## Nasty Innuendo

Kwitny's articles are filled with nasty innuendo. He writes that "evidence has turned up that Nugan Hand bank was deeply involved in moving funds about the world for big international heroin dealers and also might have been involved in the shady world of international arms traffic. To cap it off, the offices of Nugan Hand and its affiliates were loaded with former high-ranking U.S. military and intelligence officials."

**Loaded? We have already exposed that exaggeration. But what about the ethics of associating these officers with "international heroin dealers" and "the shady world of international arms traffic?"** Adm. Yates says that there had been public charges that Nugan Hand was laundering drug money before he joined the bank. He says that he investigated those charges and could find no evidence to support them. He found the bank to have a good reputation. He does point out that it is not always easy for a bank to know the source of funds that are deposited with it. Many banks in this country accept deposits from drug dealers, sometimes wittingly, sometimes unwittingly.

Australian law enforcement authorities have told AIM that they do not believe Nugan Hand was engaged in the drug traffic, but it is possible that it may have taken in drug money as deposits. Kwitny says that one convicted drug dealer is suspected of using a Nugan Hand account to transfer funds from Australia to Asia, implying some culpability on the part of the bank and all those high ranking U.S. former officers. The only question is, why would anyone want to use the facilities of Nugan Hand for transferring funds abroad when any large commercial bank would do the job more efficiently.

Adm. Yates says that Nugan Hand tried to get into the business of helping manufacturers of military equipment sell their products, and he personally wrote to several large manufacturers. None accepted the offer of Nugan Hand's services. He adds, "To my knowledge, no sale of any military equipment was ever concluded by Nugan Hand." He notes that this is a perfectly legitimate business, but he says you don't break into it on a "Nugan Hand style penny ante basis."

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Of course, it would be of little interest to Americans if a small Australian bank that had gone belly up had been involved in the drug trade. The Wall Street Journal hasn't devoted comparable space to banks much closer to home that have laundered drug money. The message that Kwitny and his friends at *CounterSpy* want to get across is that the CIA was perhaps using Nugan Hand for all kinds of nefarious schemes. Kwitny says: "The opposition Labor Party... has openly questioned whether the CIA... helped topple Australia's last Labor government, led by Prime Minister Gough Whitlam. The CIA has denied this. Now suspicions have been raised that Nugan Hand, which handled enormous amounts of money, may have been used to channel funds to favored Australian political parties."

These anonymous charges have been denied by the CIA, by Vice President Bush who was head of the CIA, and by

the Australian Prime Minister. A former CIA official told AIM that during the Whitlam period the CIA "walked on eggs" to avoid causing problems in Australia. They didn't want to do anything that might endanger the then secret missile tracking station there.

**We don't have enough space to tackle all of the many inaccuracies and exaggerations in the Kwitny series, but it is apparent that Jonathan Kwitny has again succeeded in getting The Wall Street Journal to serve as a transmission belt for his disinformation.**